

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 L-03 H-02 PA-02

PRS-01 CIAE-00 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04

OPIC-06 LAB-04 SIL-01 ABF-01 FSE-00 /111 W

----- 114124

R 051757Z SEP 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 4465

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

UNCLAS SECTION 01 OF 02 LONDON 13766

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING SEPT. 5

BEGIN SUMMARY: THE GOVERNMENT'S ANTI-INFLATION PROGRAM
OVERCAME A KEY OBSTACLE THIS WEEK WHEN THE TRADES UNION

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CONGRESS VOTED BY A 2 TO 1 MARGIN TO SUPPORT THE 6 POUND

WAGE LIMIT. IN WASHINGTON, THE CHANCELLOR SPOKE STRONGLY AGAINST SCATTERED CALLS FOR EARLY GOVERNMENT MEASURES TO REFLATE THE ECONOMY, WHILE IN THE PRIVATE SECTOR, BUSINESS AND INVESTORS APPEAR TO BE TAKING A PASSIVE STANCE UNTIL THERE ARE SIGNS THAT THE GOVERNMENT'S ANTI-INFLATION MEASURES ARE TAKING HOLD. THERE ARE CLEAR INDICATIONS THAT SEVERAL MAJOR INDUSTRIES ARE DEFERRING PLANNED EXPANSION DUE TO DEPRESSED MARKETS AND POOR BUSINESS CONFIDENCE. END SUMMARY

2. OFFICIAL RESERVES: AT THE END OF AUGUST, UK OFFICIAL RESERVES STOOD AT \$6,004 MILLION AFTER A DECREASE OF \$255 MILLION DURING THE MONTH. IT IS BELIEVED THAT THE FALL RESULTED LARGELY FROM BANK OF ENGLAND ACTION IN SUPPORT OF THE POUND WHICH CAME UNDER PRESSURE EARLY IN THE MONTH. ACCRUALS OF FOREIGN CURRENCY FINANCING BY THE PUBLIC SECTOR UNDER THE EXCHANGE COVER SCHEME TOTALLED \$23 MILLION IN AUGUST.

3. FINANCIAL TIMES BUSINESS SURVEY SHOWS FEW SIGNS OF OPTIMISM. THE FINANCIAL TIMES MONTHLY SUMMARY OF BUSINESS OPINION FOR AUGUST COVERED BREWERS AND DISTILLERS, NON-ELECTRICAL ENGINEERING FIRMS, AND THE PAPER AND ALLIED PRODUCTS INDUSTRY. IT SHOWED THAT 48 PERCENT OF FIRMS WERE WORKING BELOW CAPACITY. MOREOVER, DURING THE NEXT 12 MONTHS 46 PERCENT EXPECTED THEIR LABOR FORCE TO CONTRACT, 43 PERCENT EXPECTED THEIR CAPITAL EXPENDITURES TO DECLINE AND 36 PERCENT FELT THAT THEIR PROFITS WOULD BE LOWER. THE LARGEST PROBLEM CONTINUES TO BE THE LOW LEVEL OF DEMAND, BOTH DOMESTIC AND FOREIGN WHICH IS BEING REFLECTED BY A SHARPLY REDUCED TREND IN NEW ORDERS. THE FIRMS IN THESE SECTORS PLACE GREAT HOPE IN INCREASED EXPORTS AS A MEANS OF INCREASING DEMAND, BUT FEEL UNEASY ABOUT THE GENERAL BUSINESS SITUATION. IN FACT ONLY 24 PERCENT OF ALL RESPONDENTS FELT MORE OPTIMISTIC ABOUT THEIR FIRMS' PROSPECTS WHILE 35 PERCENT WERE NEUTRAL AND 41 PERCENT WERE LESS OPTIMISTIC THAN THEY WERE 4 MONTHS AGO. IN A RELATED DEVELOPMENT BP CHEMICALS ANNOUNCED THAT IT WAS DEFERRING 175 MILLION POUNDS OF PLANT EXPANSION IN LIGHT OF INFLATION AND THE DEPRESSED ECONOMIC

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SITUATION.

4. IMPORTED AUTOS CAPTURE 40 PERCENT OF UK MARKET: PRELIMINARY FIGURES FOR AUTOMOBILE SALES IN AUGUST INDICATE THAT IMPORTS CAPTURED 39.7 PERCENT OF THE U.K. MARKET. THE LEADER AMONG THE IMPORT GROUP WAS DATSUN WHOSE SALES EXCEEDED 6 PERCENT OF THE TOTAL AUGUST NEW CAR MARKET. DATSUN HAS UNDERTAKEN A VOLUNTARY SALES RESTRAINT NOT

TO EXCEED ITS 1974 SALES LEVEL OF 60,000 VEHICLES HOW-
EVER, AS OF END-AUGUST, 1975 SALES HAVE ALREADY AMOUNTED
TO 50,000. BRITISH LEYLAND HELD 28.7 PERCENT OF THE TO-
TAL MARKET OF 150,000 UNITS, A DECLINE OF 8 PERCENT OVER
ITS JULY MARKET SHARE, AND WARNED THAT LARGE-SCALE RE-
DUNDANCIES WOULD BE NECESSARY. CHRYSLER, UK HAD AN-
NOUNCED EARLIER IN THE WEEK THAT, IN THE FACE OF RAPIDLY
FALLING SALES, ALL OF ITS CAR AND TRUCK PLANTS WOULD BE
OPERATING ON "SHORT-TIME" THROUGH OCTOBER.

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PASS TRSY

5. EXCHANGE RATE AND GOLD:

(DATES)	8/28	9/4	CHANGE
EXCHANGE RATE	\$2.1100	\$2.1095	DOWN \$0.0005
EFFECTIVE DEPRECIATION			
(PERCENT)	27.6	27.6	UNCHANGED

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GOLD	\$161.87	\$153.00	DOWN \$8.87
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6. FORWARD DISCOUNT ON STERLING:

(DATES)	8/28	9/4	CHANGE
1 MONTH	0.60	0.65	UP 0.05
3 MONTHS	1.62	1.78	UP 0.16
6 MONTHS	3.00	3.25	UP 0.25

(ALL FIGURES IN CENTS)

7. EURODOLLAR INTEREST RATES:

(DATES)	8/28	9/4	CHANGE
1 MONTH	6-5/8	6-3/4	UP 1/8
3 MONTHS	7-3/8	7-1/4	DOWN 1/8
6 MONTHS	8-3/8	8-1/8	DOWN 1/4

8. LOCAL AUTHORITY DEPOSIT RATES:

(DATES)	8/28	9/4	CHANGE
1 MONTH	10-3/16	10-1/8	DOWN 1/16
3 MONTHS	10-9/16	10-3/8	DOWN 3/16
6 MONTHS	10-3/4	10 11/16	DOWN 1/16

9. THE MINIMUM LENDING RATE REMAINS AT 11 PERCENT AS OF FRIDAY, SEPTEMBER 5, 1975.

10. VIEWS ARE MIXED AMONG OBSERVERS HERE CONCERNING THE SHARP FALL IN GOLD PRICE THIS WEEK. IT IS ATTRIBUTED TO THE IMF DECISIONS, BUT DEALERS NOTE THE MARKET IS UNSOPHISTICATED, CONSIDER THE DROP SHOULD HAVE TAKEN PLACE EARLIER. THERE ARE REPORTS THAT MUCH INITIAL SELLING PRESSURE CAME FROM U.S. THERE IS REPORT THAT PRICE HAD PREVIOUSLY BEEN RECEIVING SUPPORT IN THE \$160 RANGE FROM ONE OF THE MAJOR DEALERS. IN GENERAL, THERE IS FEELING THAT IMF IS NOT EXPECTED TO ENTER FREE MARKET THIS YEAR AND ANOTHER U.S. AUCTION IN THE AUTUMN IS DISCOUNTED. UNCERTAINTY MIGHT BEST DESCRIBE MARKET OPINION WITH THOSE WILLING TO FORECAST ANTICIPATING A PRICE RANGE OF \$140 - \$180 IN COMING MONTHS.

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